

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Chippewa Martiny Fire Department	County Mecosta
Fiscal Year End 3-31-2006	Opinion Date 10-6-2006	Date Audit Report Submitted to State October 18, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 West Harris Street		City Cadillac	State MI
		Zip 49601	
Authorizing CPA Signature 	Printed Name Steven C. Arends		License Number 1101013211

**CHIPPEWA MARTINY FIRE DEPARTMENT**

**RODNEY, MICHIGAN**

**MARCH 31, 2006**

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

MARCH 31, 2006

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*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

October 6, 2006

INDEPENDENT AUDITORS' REPORT

To the Fire Board  
Chippewa Martiny Fire Department  
Mecosta County  
Rodney, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Chippewa Martiny Fire Department, Mecosta County, Rodney, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fire Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Chippewa Martiny Fire Department, Mecosta County, Rodney, Michigan, as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Fire Department has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of April 1, 2004.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 14 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chippewa Martiny Fire Department, Mecosta County, Rodney, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Chippewa Martiny Fire Department is a joint venture volunteer fire department supported by the Township's of Chippewa and Martiny that has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Chippewa Martiny Fire Department board's discussion and analysis of the financial results for the fiscal year ended March 31, 2006.

**Financial Highlights**

- ◆ The assets of the Fire Department exceeded its liabilities at the close of the fiscal year by \$188,135. Of this amount, \$38,034 may be used to meet the Fire Department's ongoing obligations to citizens and creditors.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$38,034 or 46% of total general fund expenditures.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Fire Department's basic financial statements. The Fire Department's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2006 for Chippewa Martiny Fire Department. The *government-wide financial statements* are designed to provide readers with a broad overview of the Fire Department's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Fire Department's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Fire Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire Department is improving or deteriorating.

The *Statement of Activities* presents information showing how the Fire Department's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Fire Department that are principally supported by intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type

CHIPPEWA MATRINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

activities). The governmental activities of the Fire Department include public safety. The fire department supports no business-type activities.

**Fund Financial Statements**

For the most part, the fund financial statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. All of the funds of the Fire Department are governmental funds.

***Governmental Funds*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Fire Department's financial position over time. The Net Assets of the Fire Department are \$188,135 at March 31, 2006, meaning the Fire Department's assets were greater than its liabilities by this amount.

CHIPPEWA MATRINY FIRE DEPARTMENT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

**Chippewa Martiny Fire Department**  
**Net Assets as of March 31, 2006**

	<b>Governmental Activities</b>
<b>Assets</b>	
Current Assets	\$ 38,034
Non Current Assets	
Capital Assets	\$ 383,061
Less: Accumulated Depreciation	(232,960)
Total Non Current Assets	\$ 150,101
<b>Total Assets</b>	<b>\$ 188,135</b>
<b>Liabilities</b>	<b>\$ 0</b>
<b>Net Assets</b>	
Invested in Capital Assets	\$ 150,101
Unrestricted	38,034
<b>Total Net Assets</b>	<b>\$ 188,135</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 188,135</b>

The most significant portions of the Fire Department's Net Assets are cash and investment in capital assets (e.g. land, buildings and equipment), less any related debt that is outstanding that the Fire Department used to acquire or construct the asset.

At the end of the current fiscal year, the Fire Department is able to report positive balance in net assets for the government as a whole.

The following table illustrates and summarizes the results of the changes in the net assets for the Fire Department. The condensed information was derived from the government-wide Statement of Activities.



CHIPPEWA MATRINY FIRE DEPARTMENT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

**Chippewa Martiny Fire Department  
Change in Net Assets  
for the Fiscal Year Ended March 31, 2006**

	<b><u>Governmental Activities</u></b>
<b><u>Revenues</u></b>	
<b>Operating Grants and Contributions</b>	
Contributions from Local Units	\$ 67,800
<b>General Revenues</b>	
Unrestricted Investment Earnings	90
Other Revenue	<u>8,046</u>
<b>Total Revenues</b>	\$ 75,936
<b><u>Expenses</u></b>	
Public Safety	<u>116,011</u>
Changes in Net Assets	\$ (40,075)
<b><u>NET ASSETS</u></b> - Beginning of Year	<u>228,210</u>
<b><u>NET ASSETS</u></b> - End of Year	<u><u>\$ 188,135</u></u>

**Governmental Activities**

During the fiscal year ended March 31, 2006, the Fire Department's net assets decreased by \$40,075 or 17.56% in the governmental funds. The majority of this decrease represents the degree to which increases in ongoing expenses have outstripped similar increases in ongoing revenues. This is partially true due to the fact that GASB 34 now requires the Fire Department to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of Chippewa Martiny Fire Department comes from the Townships of Chippewa and Martiny. Each unit contributes an equal amount. This revenue is shown as contributions from local units.

The Fire Department's governmental activities expenses are dominated by public safety expenses that total 100% of total expenses. The Fire Department spent \$116,011 in fiscal year 2006 on public safety expenses. Expenses for wages represent a large portion of the public safety expenses at \$31,660. Depreciation expense added another \$33,426.

CHIPPEWA MATRINY FIRE DEPARTMENT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

**Financial Analysis of the Government's Funds**

**Governmental Activities** The focus of Chippewa Martiny Fire Department's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Fire Department's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**General Fund** – At the end of the current fiscal year, Chippewa Martiny Fire Department's general fund reported an ending fund balance of \$38,034. All of this amount constitutes unreserved fund balance. The fund balance of the Fire Department's general fund decreased by \$6,649 during the current fiscal year.

**General Fund Budgetary Highlights**

During the year, individual expenditure lines were amended to agree with actual expenditures. In total, Public Safety expenditures did not change.

**Capital Assets and Debt Administration**

**Capital Assets.** The Fire Department's investment in capital assets for governmental activities as of March 31, 2006 amounted to \$150,101 net of accumulated depreciation. There were no additions this year.

Capital assets summarized below include any items purchased with a cost greater than \$2,500 individually, plus all land. A summary of capital asset categories is illustrated below:

**Chippewa Martiny Fire Department**  
**Capital Assets as of March 31, 2006**

	<b>Governmental Activities</b>
Land	\$ 4,000
Buildings	56,000
Vehicles and Equipment	323,061
	<hr/> 383,061
Less Accumulated Depreciation	(232,960)
	<hr/>
<b>Net Capital Assets</b>	<b>\$ 150,101</b>
	<hr/>

**Long-Term Debt.** As of March 31, 2006, the Fire Department was not obligated for any long-term debt.

CHIPPEWA MATRINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

**Economic Condition and Outlook**

The Fire Department is expected to be supported by the Townships in the future.

A fire millage was once again levied for the 2005 tax roll. The mills to be levied for the 2006 tax roll for fire protection are expected to be similar to 2005.

These factors were considered in preparing the Fire Department's budgets for the 2006-07 fiscal year.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Fire Department's finances and to demonstrate the Fire Department's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Chippewa Martiny Fire Department at 16731 110<sup>th</sup> Avenue, Rodney, Michigan 49342.

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

STATEMENT OF NET ASSETS  
MARCH 31, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 38,034
<u>CAPITAL ASSETS</u>	
Land	\$ 4,000
Buildings	56,000
Vehicles and Equipment	323,061
	\$ 383,061
Less Accumulated Depreciation	(232,960)
Total Capital Assets	\$ 150,101
TOTAL ASSETS	\$ 188,135
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	\$ 0
<u>NET ASSETS</u>	
Invested in Capital Assets	\$ 150,101
Unrestricted	38,034
Total Net Assets	\$ 188,135
TOTAL LIABILITIES AND NET ASSETS	\$ 188,135

The accompanying notes are an integral part of the financial statements.

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006

					NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS
		PROGRAM REVENUES			
		CHARGES FOR	OPERATING	CAPITAL	
FUNCTIONS/PROGRAMS	EXPENSES	SERVICES	GRANTS AND	GRANTS AND	TOTALS
<u>PRIMARY GOVERNMENT</u>					
<u>GOVERNMENTAL ACTIVITIES</u>					
Public Safety	\$ 116,011	\$ 0	\$ 67,800	\$ 0	\$ (48,211)
<u>GENERAL REVENUES</u>					
	Unrestricted Investment Earnings				\$ 90
	Other Revenue				8,046
	Total General Revenues				\$ 8,136
	Change in Net Assets				\$ (40,075)
	<u>NET ASSETS</u> - Beginning of Year				228,210
	<u>NET ASSETS</u> - End of Year				\$ 188,135

The accompanying notes are an integral part of the financial statements.

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET  
MARCH 31, 2006

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 38,034
<u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	\$ 0
<u>FUND BALANCE</u>	
Unreserved	<u>38,034</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 38,034</u>

The accompanying notes are an integral part of the financial statements.

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2006

Total Fund Balance for Governmental Funds	\$	38,034
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Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Land	\$	4,000	
Buildings		56,000	
Vehicles and Equipment		323,061	
Accumulated Depreciation		<u>(232,960)</u>	<u>150,101</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>188,135</u></u>
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The accompanying notes are an integral part of the financial statements.

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2006

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Local Sources	
Contributions from Local Units	\$ 67,800
Interest and Rents	90
Other	<u>8,046</u>
Total Revenues	\$ 75,936
<u>EXPENDITURES</u>	
Public Safety	<u>82,585</u>
Net Change in Fund Balance	\$ (6,649)
<u>FUND BALANCE</u> - Beginning of Year	<u>44,683</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 38,034</u></u>

The accompanying notes are an integral part of the financial statements.



CHIPPEWA MARTINNY FIRE DEPARTMENT  
RODNEY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2006

Net change in Fund Balance Total Governmental Funds	\$ (6,649)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	<u>(33,426)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (40,075)</u></u>
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The accompanying notes are an integral part of the financial statements.

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

Chippewa Martiny Fire Department is a joint venture volunteer fire Department supported by Chippewa and Martiny Townships. Under the criteria established by accounting principles generally accepted in the United States of America, the Fire Department has determined that there are no component units which should be included in its reporting entity.

**B. Government-wide and Fund Financial Statements**

During fiscal year 2005, the Fire Department adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Contributions from local units and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Fire Department as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

Contributions from local units and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Fire Department are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Chippewa Martiny Fire Department reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

When both restricted and unrestricted resources are available for use, it is the Fire Department's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The Fire Department's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The investment policy adopted by the Fire Department states that the fire clerk may invest fire department funds in certificates of deposit, savings accounts, deposit amounts or depository receipts of a bank but only if the bank, savings and loan association, or credit union meet all criteria as a depository of public funds contained in state law. The standard of prudence to be used shall be the "fiduciary" standard and shall be applied in managing an overall portfolio.

***2. Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles. Fire Department revenues are recognized when they become both measurable and available for use to finance Fire Department operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

For the 2005 – 2006 fiscal year, the Chippewa Martiny Fire Department received as aid \$33,900 from Chippewa Township and \$33,900 from Martiny Township.

***3. Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**4. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 (amount not rounded) and an estimated useful life in excess of one year plus all land. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Land Improvements	20
Vehicles and Equipment	5-15

**5. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

**6. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**7. Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain public comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on March 15, 2005, or as amended by the Fire Department Board from time to time throughout the year.

The appropriated budget is prepared by activity. The Fire Department Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Fire Department because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Department's deposits are all on deposit with Independent Bank West in Big Rapids, Michigan.

*Investment rate risk.* The Department will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Department's cash requirement.

*Foreign currency risk.* The Department is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Department will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Department's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Department will do business in accordance with the Department's investment policy.

*Concentration of credit risk.* The Department will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Department's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2006, of the government's bank balance of \$39,006, none was exposed to custodial credit risk.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Department's investments are categorized to give an indication of the level of risk assumed by the Department at year end. Category 1 includes investments that are insured or registered, or securities held by the Department or the Department's agent in the Department's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Department's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Department's name. At year end, the Department held no investments.

**B. Receivables**

At year end, the Fire Department had no accounts receivable.

**C. Capital Assets**

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated	\$ 4,000	\$ 0	\$ 0	\$ 4,000
Land				
Capital assets, being depreciated				
Buildings	\$ 56,000	\$ 0	\$ 0	\$ 56,000
Vehicles and Equipment	323,061	0	0	323,061
Total capital assets, being depreciated	\$ 379,061	\$ 0	\$ 0	\$ 379,061
Less accumulated depreciation for:				
Buildings	\$ 22,400	\$ 1,120	\$ 0	\$ 23,520
Vehicles and Equipment	177,134	32,306	0	209,440
Total accumulated depreciation	\$ 199,534	\$ 33,426	\$ 0	\$ 232,960
Total capital assets, being depreciated, net	\$ 179,527	\$ (33,426)	\$ 0	\$ 146,101
Governmental activities capital assets, net	\$ 183,527	\$ (33,426)	\$ 0	\$ 150,101

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Public Safety	\$ <u>33,426</u>

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2006.

**D. Long-Term Debt**

At March 31, 2006, the Department was not obligated for any long-term debt.

**IV. OTHER INFORMATION**

**A. Risk Management**

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters, and worker's compensation claims. The government carries commercial insurance to guard against loss from these risks.



CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Contributions from Local Units	\$ 67,800	\$ 67,800	\$ 67,800
State Grants	1,600	1,600	0
Interest and Rents	120	120	90
Other	1,180	31,180	8,046
Total Revenues	\$ 70,700	\$ 100,700	\$ 75,936
<u>EXPENDITURES</u>			
Public Safety	100,700	100,700	82,585
Net Change in Fund Balance	\$ (30,000)	\$ 0	\$ (6,649)
<u>FUND BALANCE</u> - Beginning of Year	44,000	44,000	44,683
<u>FUND BALANCE</u> - End of Year	\$ 14,000	\$ 44,000	\$ 38,034

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

GENERAL FUND

BALANCE SHEET  
MARCH 31, 2006

ASSETS

Cash	\$	38,034
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LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$	0
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<u>FUND BALANCE</u>		
Unreserved		38,034

TOTAL LIABILITIES AND FUND BALANCE	\$	38,034
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CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Local Sources		
Contributions from Local Units	\$ 67,800	\$ 67,800
State Grants	1,600	0
Interest and Rents		
Interest Earnings	120	90
Other Receipts		
Contingency	30,000	0
Miscellaneous	1,180	8,046
	<hr/>	<hr/>
Total Revenues	\$ 100,700	\$ 75,936
	<hr/>	<hr/>
<u>EXPENDITURES</u>		
Public Safety		
Personal Services		
Salaries and Wages	\$ 40,840	\$ 31,660
Supplies		
Office and Computer Supplies	550	544
Operating Supplies		
Gas and Oil	2,000	1,614
Other Services and Charges		
Utilities and Telephone	4,000	3,859
Training	6,000	5,753
Repair and Maintenance		
Building	1,000	0
Equipment	10,500	10,023
Grounds	350	350
Medical Services	1,000	896
Printing and Publishing	200	56
Professional Services	200	0
Gas and Mileage Reimbursements	800	277
Miscellaneous	896	809
Other Functions		
Insurance and Bonds	9,344	9,316
Employee Benefits	3,350	2,422

CHIPPEWA MARTINY FIRE DEPARTMENT  
RODNEY, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>
Capital Outlay		
Equipment	16,000	15,006
Contingency	3,670	0
Total Expenditures	\$ 100,700	\$ 82,585
Excess (Deficiency) of Revenues Over Expenditures	\$ 0	\$ (6,649)
<u>FUND BALANCE</u> - Beginning of Year	44,000	44,683
<u>FUND BALANCE</u> - End of Year	\$ 44,000	\$ 38,034

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

October 6, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Fire Board  
Chippewa Martiny Fire Department  
Mecosta, County  
Rodney, Michigan

As a result of our audit of the basic financial statements of the Chippewa Martiny Fire Department for the year ended March 31, 2006, we would like to take this opportunity to comment on the following items relative to the management and accounting procedures of the Fire Department.

Reportable Condition in Internal Controls

In planning and performing our audit of the basic financial statements of the Chippewa Martiny Fire Department for the year ended March 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements.

Certain matters considered to be reportable conditions in internal controls were noted. We are issuing a separate letter (letter of reportable conditions) which addresses those items noted.

Capitalization Policy

The Department should officially adopt and record in the minutes its' Capitalization Policy of \$2,500. We have provided an appropriate sample policy for the board to consider for adoption.

GASB 34

These financial statements are reported under the new GASB 34 accounting standard and are much different than in the past.

Some of the more significant changes required by GASB 34 are as follows:

1. Management's discussion and analysis is a new section in the financial report. This includes the administration's narrative overview of the information contained in the financial statements.

2. Several new types of financial statements are now included that reports financial information on a Fire Department-wide basis and incorporates capital assets, a provision for depreciation on those assets as well as long-term liabilities of the Fire Department.

#### Budgeting Procedures

Pertaining to the Fire Department's compliance with Public Act 621 of 1978, the following are noted:

1. The budget document should have the actual results from the prior year.
2. The amount of fund balance expected at the end of the upcoming year, after applying the budgeted revenues and expenditures, should be included in the budget document.

#### General Recordkeeping

The accounting records being maintained for the year ended March 31, 2006, were found to be in good order and in compliance with the State's uniform accounting system. We commend the clerk for her fine effort.

We recommend the Fire Department carefully review these statements under the new accounting standard. We are available to explain the various changes in detail if so desired.

We would like to thank the board for awarding our firm the audit assignment and to thank the Fire Department Clerk for her fine effort.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

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M. WAYNE BEATTIE, C.P.A.  
1902 - 1990

JOHN H. BISHOP, C.P.A.  
ROBERT V. BEATTIE, C.P.A.  
DOUGLAS P. McMULLEN, C.P.A.  
JOHN F. TAYLOR, C.P.A.  
STEVEN C. ARENDS, C.P.A.  
SCOTT A. HUNTER, C.P.A.  
JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

October 6, 2006

LETTER OF REPORTABLE CONDITIONS

To the Fire Board  
Chippewa Martiny Fire Department  
Mecosta, County  
Rodney, Michigan

In planning and performing our audit of the basic financial statements of Chippewa Martiny Fire Department, Rodney, Michigan for the year ended March 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the Fire Department make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Very truly yours,

BAIRD, COTTER AND BISHOP, P.C.